

Sales tax on services would hurt the desert

MICHELLE STEEL • SPECIAL TO THE DESERT SUN • MAY 14, 2008

With 350 days of sunshine every year, there is plenty of daylight for desert tourists to do it all, a round of golf, relaxing massage, and even a late-afternoon show or movie. But, a proposed tax increase on services might leave tourists without the financial means to afford everything the valley has to offer.

Today, Gov. Arnold Schwarzenegger will release his May revisions to the state budget, and the news isn't good for taxpayers. Budget analysts predict the state's budget deficit could range from \$14 billion to \$20 billion. To close this gap, state lawmakers are considering a range of new taxes and budget cuts. One idea, a new sales tax on services, stands out as the worst budget solution for desert taxpayers.

A new sales tax on services is an unfair double tax on consumers that could devastate the desert's \$3.1 billion tourism industry. All the while, this new tax won't contribute a single penny toward this year's budget.

Late last month, the Board of Equalization chairwoman reported to legislative leaders that a new sales tax on services could single-handedly eliminate California's budget deficit. "At the state general fund rate of 5 percent, a tax levy on a broad base of services in California could generate in the neighborhood of \$45 billion annually," the state's top sales tax official wrote.

Disproportionate impact

Modeled after New York, New Jersey and Connecticut (the only states with a tax burden worse than California's), this sales tax on services would make it more expensive to wash your car, go to a ballgame, see a movie, balance your company books and even call your attorney when you forget to pay this new tax. More importantly for the desert, this new tax disproportionately impacts tourism-based jobs and businesses by making a round of golf, relaxing massage and tennis lesson more expensive.

Although sales taxes are essentially passed on to the customer, it doubly hurts local businesses. Economics 101 teaches us that higher taxes leave tourists with less money to spend on their vacation. At a time when the nation's disposable incomes have shrunk, local businesses cannot afford another hit to their margins.

This new tax is more repulsive when you realize that California's service businesses already pay one of the nation's highest state income taxes. Adding a sales tax on services would translate into a double tax on their hard work. First, service-businesses

would pay a sales tax on a monthly or quarterly basis. Then every April 15 these same businesses would pay an income tax on the same service.

No impact on 2008-09 shortfall

Finally, a new tax on services will not generate a single penny in revenue for the 2008-09 state budget shortfall. It will take at least a year to educate businesses on their new tax obligations. Moreover, taxes don't collect and administer themselves; the tax agency will need hundreds of new auditors, collectors and bureaucrats to enforce the tax. The first year of an expanded sales tax will likely cost the state millions of dollars in short-term expenditures to create the government infrastructure to administer the tax.

If the Legislature's past performance is any indication of the future, taxpayers need to do their part to oppose this egregious tax increase. Contact the governor and our representatives, and tell them a sales tax on services is the wrong budget solution.

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